
Report of the Supervisory Board to the Shareholders' Meeting on the supervisory activities performed in 2012

pursuant to art. 153, Legislative Decree 58 of 24 February 1998, and art. 25.1.3, letter d), of the Articles of Association

Distinguished Shareholders,

Pursuant to art. 153, par. 1, of the Legislative Decree 58 of 24 February 1998 ("Consolidated Law on Finance"), the Supervisory Board must report to the Shareholders' Meeting, called pursuant to art. 2364-*bis* of the Italian Civil Code, on the supervisory activities performed and any omissions or reprehensible facts found.

Accordingly, in the first part of this document, the Supervisory Board, reporting on the activities performed in view of approval of the Parent Company's and consolidated financial statements, illustrates the supervisory activities performed in 2012 pursuant to art. 149, par. 1, of the Consolidated Law on Finance and the Articles of Association, also through its own internal Committees which, during the year in question, provided appropriate and timely in-depth data feeds on the matters for which they are responsible. Information on the composition, structure and operation of said Committees is provided in the Report on Corporate Governance and Ownership Structures – Report on Remuneration ("Annual Report") approved by Intesa Sanpaolo's Corporate boards on 12 March 2013 each within the scope of its remit.

The roles performed by the Chairman of the Supervisory Board – focused on the supervision and activation of the corporate bodies – and the Director and Secretary to the Board – aimed at ensuring the liaison for all the Board's activities and improving their supervision – also contributed to discharging of the Supervisory Board's duties.

On this point, the Supervisory Board, acting in accordance with the provisions of the Bank of Italy, issued in 2008 and subject to additional clarification in January 2012, and with the Corporate Governance Code for listed companies, carried out its self-assessment with the support of the Control Committee and the Nomination Committee. As is customary, said self-assessment consisted of detailed analysis of the functions actually carried out by the Board and by its Committees during the year, and it was aimed at verifying, in light of their respective duties and powers, the degree of completion of the activities performed and identifying any area requiring greater attention. The duties assigned to the Supervisory Board were considered adequately fulfilled, and the Committees and Board were deemed to be suitable for the effective performance of their respective functions.

In view of the renewal of the Supervisory Board by the Shareholders' Meeting, convened for 22 April 2013, the self-assessment process was resumed by the Board, illustrating to shareholders the qualitative and quantitative structure deemed optimal, also in light of the evolution of applicable legislation. In this respect, see the specific document published on 12 March 2013.

In reporting on the supervisory activities performed in 2012, the Supervisory Board takes into account the recommendations issued by Consob and, in particular, Communication 1025564 of 6 April 2001, as amended. In this regard, as is customary and for the sake of completeness and ease of reference, the items specified in the abovementioned Consob document are shown in notes in the margin.

This Report also provides information on the performance of the other functions assigned to the Supervisory Board by the law and the Articles of Association. Accordingly, the second part of this Report provides information on:

- (i) the results of auditing carried out by the Internal Auditing Department on the Intesa Sanpaolo Group's remuneration systems and practices in 2012;
- (ii) the Allowance for charitable contributions and cultural initiatives;
- (iii) the results for 2012 and the allocation of profit.

Given all of the above, the Supervisory Board:

- a) confirms that on 12 March 2013 it approved the Annual Report within the scope of its remit, pursuant to Art. 123-*ter* of the Consolidated Law on Finance;
- b) points out, also in relation to its duties specifically attributed by law and by the Articles of Association with regard to approval of the Parent Company's and consolidated financial statements, that:
 1. on 12 March 2013 the Management Board approved the draft Parent Company's and consolidated financial statements as at 31 December 2012 which, together with the Reports on

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- operations, were made available to the Supervisory Board on the same date, as an exception - authorised in advance by the control Body - to the period provided for in Art. 154-*ter* of the Consolidated Law on Finance;
2. the Board has verified the compliance, also with the aid of the Financial Statements Committee, as well as the Control Committee and the information obtained from Reconta Ernst & Young S.p.A. (the previous independent auditors) as regards the first quarter of 2012 and KPMG S.p.A. (current "External Auditors" or "Independent Auditors") for the full year 2012, with the legal and regulatory provisions on the presentation, structure and format of said financial statements, which contain the information referred to in the joint Bank of Italy-Consob-ISVAP document 4 of 3 March 2010;
 3. the Board has verified that the Reports on operations for 2012, accompanying the aforementioned draft financial statements, comply with the laws and regulations in force and that they fully describe the operations and situation of the Bank and the aggregate of companies included in consolidation;
 4. the Board has examined said documents, which are clearly drawn up and represent the balance sheet, cash flows and income statement of the Bank and the Group and the economic result for the year, as well as the business performance for the year, and also provide prudent information on the main risks and uncertainties that the Bank and the Group are exposed to;
 5. on 12 March 2013 the Managing Director and the Manager responsible for preparing the Company's financial reports released the certifications pursuant to Art. 154-*bis*, par. 5 of the Consolidated Law on Finance;
 6. on 20 March 2013 the External Auditors issued the Report pursuant to Art. 19 of Legislative Decree 39/2010 on the fundamental issues arising from the audit, the annual confirmation of the independence of the Independent Auditors pursuant to Art. 17, paragraph 9, letter a) of the aforementioned Decree, as well as the Audit Reports on the Parent Company's financial statements and the consolidated financial statements as at 31 December 2012, with no exceptions;
 7. by resolution of 21 March 2013, the Board approved the financial statements of Intesa Sanpaolo and the consolidated financial statements of the Group as at 31 December 2012;
- c) informs that no significant facts have emerged from the supervisory activities performed requiring disclosure to the Supervisory Authorities.

PART I

REPORT ON THE SUPERVISORY ACTIVITIES OF THE SUPERVISORY BOARD PURSUANT TO ART. 153 OF THE CONSOLIDATED LAW ON FINANCE

1. Supervision of compliance with the law and the Articles of Association

1.1 Compliance with the law

The Supervisory Board has monitored compliance with the law in general.

Following enactment of Law 120 of 12 July 2011, containing amendments to the Consolidated Law on Finance as regards equal access to the management and control bodies of companies listed on regulated markets, and Law Decree 201 of 6 December 2011 (converted with amendments by Law 214/2011) on the legal prohibition of interlocking, the Supervisory Board authorised several proposed amendments to the Articles of Association, previously approved by the Management Board and authorised by the Extraordinary Shareholders' Meeting of 29 October 2012, which will enter into effect upon renewal of the corporate bodies.

With specific reference to the provisions under Art. 36 of Law Decree 201/2011 – according to which Intesa Sanpaolo officers cannot accept or exercise office in management, supervisory or control bodies of competing companies or groups of companies operating in the credit, insurance or financial markets – the Management and Supervisory Board Members evaluated their respective situations and made the necessary decisions to ensure compliance with the law.

Furthermore, the Supervisory Board:

- also through the Control Committee, received periodic reports from the Compliance Department on compliance of the Group's operations with the regulations governing the transparency of banking and financial services, with specific reference to the planning and implementation of organisational and procedural measures;

- upon recommendation by the Management Board, approved the adoption and updating of rules on the provision of investment services and activities and monitored the relative methods used to provide them, using the regular reports from the Compliance Department, the Risk Management Department and the Internal Auditing Department;
- through the Control Committee and the Financial Statements Committee, investigated tax accounting, including the recognition of deferred taxes, and the Group's tax litigation;
- upon recommendation by the Management Board, approved the Group's policies on investments in non-financial companies, as implementation of the Supervisory Provisions in effect since 30 June 2012;
- as the body responsible for strategic supervision, it approved, upon recommendation by the Management Board, the new unrated Covered Bond issue programme, backed by residential mortgages portfolios, and, as control body, it issued a favourable opinion on the programme's compliance with the provisions of the law, with the Consob Regulation and with the Regulations for Prudential Supervision, as well as on the subject activity's impact on Intesa Sanpaolo's income statement and balance sheet position.

Particular attention was paid to compliance with anti-money laundering legislation, to which the Supervisory Authorities are assigning increasing importance. In this respect, particularly significant activities were carried out by the Surveillance Body pursuant to Legislative Decree 231/2011 ("Surveillance Body"), responsible for the operation, effectiveness and compliance of the "Organisational, Management and Control Model" adopted by the Bank in accordance with the aforementioned Decree. See subsequent paragraph 3.2.2 for further discussion on this matter.

Following enactment of the so-called "Stability Law" (Law 183/2011) and on proposal of the Management Board, the Supervisory Board authorised domestic subsidiaries to assign to their boards of statutory auditors the duties of Surveillance Body, without prejudice to the need to ensure adequate separation of roles, in a manner similar to the practice at the Parent Company.

The Control Committee updated the Operating Guidelines of the Boards of Statutory Auditors of the Italian subsidiaries, also in light of the legal developments occurred during 2011. In this respect, members of the Supervisory Board were part of the control bodies of several of the most important Group companies in 2012 as well. Furthermore, in October, the Control Committee met with members of the Boards of Statutory Auditors that have already taken on the role of Surveillance Body and the Chairmen of the Boards of Statutory Auditors of the other main Group companies.

With regard to the branches abroad, the Supervisory Board was informed by the Chief Risk Officer on the dismissal of the investigation of the local Bank branch by the New York District Attorney's office. This decision follows that of the local Department of Justice, which formally closed the proceedings last April in favour of the Group. Evaluation by the Office of Foreign Assets Control (OFAC) regarding any irregularities is still pending.

The British Financial Services Authority also dismissed, without sanctions, its inquiry of operations at the London branch of Banca IMI, which began in 2010, in relation to the allegation of abuse of inside information by a former employee, regarding the bond issue of a listed company. However, Consob imposed sanctions on the interested party and the subsidiary.

In 2012, the Supervisory Board, in its capacity as Control Body, did not receive any complaints pursuant art. 2408 of the Italian Civil Code.

With regard to complaints submitted to the Supervisory Board or directly to its members, in 2012 a total of 30 complaints were received regarding the Bank's core business operations. Via the responsible functions, notified by the Customers Service and Complaints Service, each report was suitably verified, also concerning the necessary reply and, in some cases, reaching an agreement with the complainant. On the whole, the assessment conducted on such complaints did not bring to light any significant omissions or irregularities.

1.2 Compliance with the Articles of Association

The Supervisory Board verifies on an ongoing basis compliance with the Articles of Association as part of its assigned functions.

To this end, it accepted the proposals by the Management Board to the Shareholders' Meeting – which approved them on 28 May 2012 – regarding the increase in legal reserve and distribution of prior-year net income to the extraordinary reserve.

The Board also verified correct application of previous art. 23.9 of the Articles of Association in the appointment of Gianfranco Carbonato as Supervisory Board Member, replacing Gianluca Ferrero, who

resigned effective 27 April 2012 in accordance with the interlocking prohibition under Art. 36 of Law Decree 201/2011. In this respect, the Board provided shareholders with specific considerations on the candidate's professional profile that were deemed compatible with the optimum theoretical profile of the quali-quantitative composition of the Board.

The Bank's Corporate Bodies met regularly during 2012. More specifically, the following meetings were held:

- 2 Shareholders' Meetings, also attended by the members of the Supervisory Board;
- 15 Supervisory Board meetings;
- 18 Management Board meetings, attended, in accordance with the Articles of Association, by the members of the Control Committee and the Board Secretary, whereas the Chairman and the other members of the Supervisory Board did not attend;
- 48 Control Committee meetings;
- 3 Nomination Committee meetings;
- 16 Remuneration Committee meetings;
- 8 Strategy Committee meetings;
- 16 Financial Statements Committee meetings;
- 14 Related Party Transactions Committee meetings.

Moreover, the Supervisory Board issued the opinions required from the Control Body under the Articles of Association, with regard, in particular, to the appointment and remuneration of the General Managers and to the incentive system for the Manager responsible for preparing the Company's financial reports and the heads of the control departments.

2. Supervision of compliance with the principles of correct management

The Supervisory Board confirms that, also with the aid of its Committees and within its area of responsibility, it has acquired information on and supervised compliance with the principles of correct management, through information gathering and regular meetings with the managers of the main company functions, together with the Manager responsible for preparing the Company's financial reports.

The Supervisory Board, as part of the strategic supervisory duties assigned to it by the Articles of Association, has:

- examined and approved the 2012 Budget, with the Strategy Committee's assistance;
- acquired quarterly reports, in compliance with Art. 150, paragraph 1 of the Consolidated Law on Finance, on activities performed and on transactions with a major economic, financial and capital impact carried out by the Bank and its subsidiaries, including related-party transactions; on this point, the Supervisory Board and the Committees are assisted by the constant information flows between the Bank's departments and the Managing Director, between the latter and the Management Board and between the Management Board and the Supervisory Board. This exchange of information is improved by regular meetings between the Control Committee and the Managing Director, mainly aimed at ensuring the smooth operation and effectiveness of the internal control system, and by the Control Committee's six-monthly reports on activities submitted to the Chairman of the Management Board and the Managing Director;
- supervised, also via the internal control functions, the observance of the obligations envisaged for such transactions according to law and the Articles of Association, confirming that they are not manifestly imprudent, hazardous, in conflict of interest, in contrast with resolutions taken by the Shareholders' Meeting, or in any event likely to compromise the integrity of the shareholders' equity.

Specifically, with regard to the supervision of compliance with the principles of correct management, the Supervisory Board is required to:

- (i) assess and examine the causes and remedies for any management irregularities, performance deviations and shortfalls in the organisation and accounting structures.

To this end, the Supervisory Board received regular information from the Management Board – all of whose meetings were attended by the Control Committee – in relation to the main data on operations for the period and industry comparison.

In light of the information received, no atypical and/or unusual transactions were carried out with third parties, related parties or intragroup that could give rise to doubts concerning the fairness/completeness of the financial statements, conflicts of interest, the safeguarding of company assets, or the protection of minority interests.

In its Reports on operations and in the Notes to the draft Parent Company's and consolidated

financial statements as at 31 December 2012, the Management Board adequately reported and illustrated the most significant intragroup related-party transactions (which, under the Intesa Sanpaolo Group's Related-party Transaction Regulation are exempt from the special decision-making procedure and from the obligation to publish a market disclosure document), of an ordinary or recurring nature and specific transactions; moreover, the Management Board provided information on company merger transactions and extraordinary intragroup transactions, describing their characteristics.

- (ii) assess the appropriateness of the general rules and criteria established by the Management Board for the approval and execution of transactions with related parties and on conflicts of interest in general.

With specific reference to related-party transactions – which are based on the civil code corporate provisions (Articles 2391 and 2391-*bis* of the Italian Civil Code) and on the Consob Regulation adopted by resolution no. 17221 of 12 March 2010 as subsequently amended – the role assigned to the Committee established for this purpose within the Supervisory Board is emphasised.

This Committee – which has no authority to examine the remuneration of related parties, a matter that falls under the competence of the Remuneration Committee – examined 23 transactions in 2012, all of which were classified as less significant, and issued a favourable, non-binding opinion for each. It received 20 notices regarding transactions also subject to the provisions and special decision-making procedure pursuant to the Art. 136 of Legislative Decree 385/1993 (Consolidated Law on Banking) previously in force.

This regulation was amended by Law 221/2012 (which converted Law Decree 179 of 18 October 2012), effective from 19 December 2012, which annulled the obligation to apply the special decision-making procedures indicated above:

- (i) in the event of obligations assumed towards their own company officers by financial and instrumental companies belonging to the banking group and in the event of financing transactions by banks and banking group companies with officers of another bank or company of the same group;
- (ii) in the event of transactions by the banking group with companies for which officers of the banking group serve in an office of management, direction or control, as well as with companies in control relationships with such companies.

In this respect, there has been a significant increase in the involvement of the Related Party Transactions Committee since the beginning of 2013 in terms of issuance of opinions, also upon implementation of the regulation issued by the Bank of Italy on 12 December 2011 on activities involving risk and conflicts of interest by banks and banking groups with respect to “associated entities”.

These provisions were included in the new Regulations on the management of transactions with related parties of Intesa Sanpaolo and associated entities of the group, adopted in June 2012 with resolutions by the respective Boards (to the extent of their responsibilities) and upon favourable opinion by the Control Committee.

In 2012 the Control Committee, together with the Related Party Transactions Committee, reviewed the soundness and effectiveness of the procedures adopted by Intesa Sanpaolo, with the assistance of the Internal Auditing Department which reported on the outcome of this review. The Auditing Department found the procedures to be on the whole appropriate, while highlighting some areas for improvement.

As to legal compliance on conflicts of interest with regard to investment services and activities, the Bank has put in place a comprehensive set of rules ensuring compliance with the relevant legislation (“Conflict of interest management policy”; “Rules for the management of conflicts of interest and inside and confidential information flows regarding third-party issuers”, “Personal Transaction Rules”). The company regulations underwent ongoing verification by the internal control functions during 2012.

- (iii) receive notification from the Management Board Members of their interests, in their own name or on behalf of third parties, in relation to the Management Board decisions, together with any relevant information necessary to appreciate the size and extent of the interest.

To this end, the members of the Supervisory Board, in accordance with the aforementioned provisions of Art. 136 of the Consolidated Law on Banking, took part in the casting of the favourable vote required for the effectiveness of the Management Board resolutions in 2012 as well.

In accordance with the Articles of Association, the Supervisory Board Members who have an interest, in their own name or on behalf of third parties, in any transaction of the Bank that is deemed significant under the Articles of Association (such as a strategic transaction), must provide notification of such

specifying the nature, terms, origin and extent of the interest. The Supervisory Board resolution must adequately set out the reasons for the transaction and its suitability for the Bank. In 2012 no operation of this type was submitted to the Board.

In view of the above, the Supervisory Board confirms that the principles of correct management have been continuously applied.

3. Supervision of the adequacy of the company's organisational structure as regards aspects under its scope of responsibility and of the internal control system

3.1 The adequacy of the organisational structure

As to the Bank's organisational structure, see the information provided in the Annual Report, which describes Intesa Sanpaolo's operational structure, divided into Business Units, Governance Areas and Head Office Departments.

It should be noted that the Bank has adopted a Regulation which sets out the Group's overall structure, guaranteeing coordination of governance and compliance with its policy principles. Said Regulation is the reference document for relations between Intesa Sanpaolo and its subsidiaries. For the purpose of actual application of the provisions of the Regulation, Intesa Sanpaolo has designed specific reporting procedures and adequate information flows.

The Supervisory Board – with the aid of the Control Committee – has continued to examine the main governance and business units of Intesa Sanpaolo and Group companies. Attention was paid in particular to their organisational structure (focusing on the internal control system and on relations with the Parent Company's other corporate functions and with the Group companies), the risk management methods and the procedures supporting the activities performed, the organisational structure and the systems vital to operations. In this context, the Committee met with the officers of:

- the consumer credit sector, for an update on the progress of works on the segment reorganisation project and on the relative network of branches;
- the International Subsidiary Banks Division, for updates on the control system of certain foreign subsidiaries (Alexbank and CIB), also with the objective of providing feedback to the Supervisory Authority, as it expressly requested;
- the Internal Auditing Department and the Corporate and Investment Banking Division, for information on the organisation and structures dedicated to controls in Intesa Sanpaolo's branches abroad;
- Intesa Sanpaolo Vita, to examine the organisational structure and controls of the Group's insurance business;
- the Human Resources Department, to analyse the training activities carried out, the employee sanctions policy and the timing for turnover of Bank branch managers;
- the Internal Auditing Department for presentation of the Organisation and Security Department's project, aimed at evaluating centralisation within the Parent Company of the audit functions of a number of subsidiaries.

The Internal Auditing Department generally participated in the meetings, supporting the Committee's work by illustrating data on the issues covered.

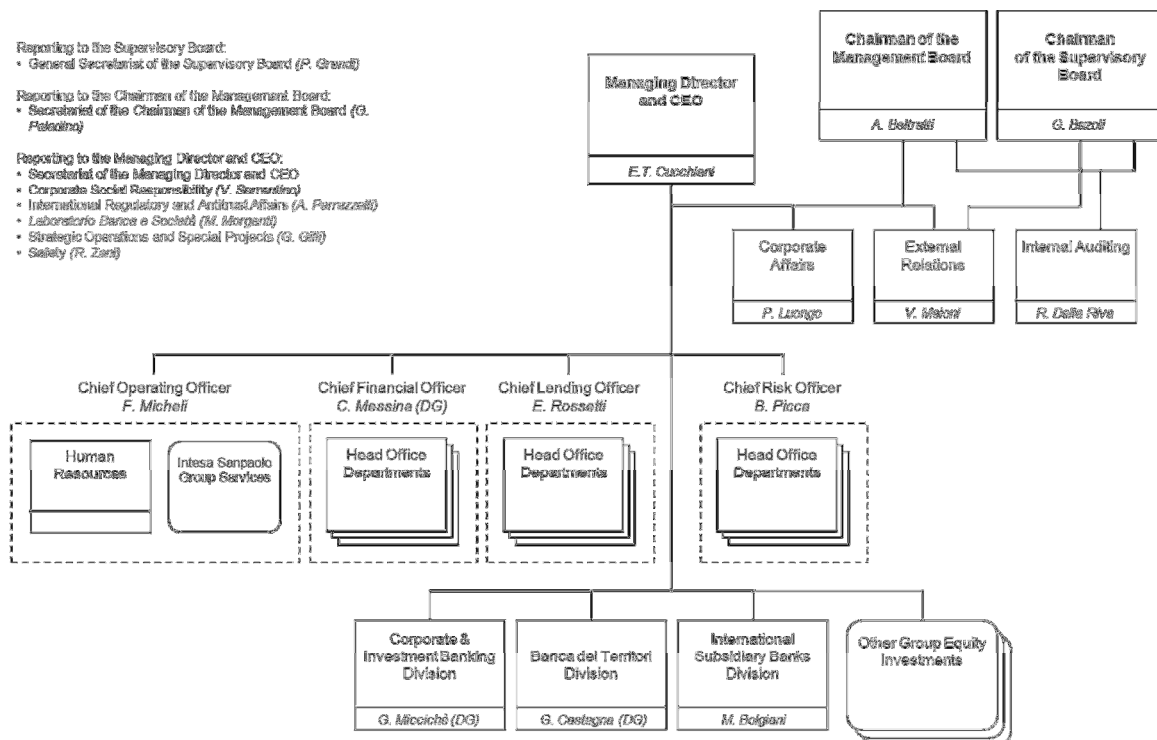
The Control Committee also examined the projects and/or activities aimed at the Group's organisational development and at ensuring compliance with regulatory changes. In particular, it continued supervision of the credit process and examined the organisational and risk containment profiles of the new "out-of-branch offering" project, which extends the offer of the Bank's products and services to customers' homes or workplaces.

With reference to the internal control system, the organisational model based on three separate levels of governance (business management, risk and compliance management and internal audit) and characterised by segregation of the risk management and risk control functions was confirmed in 2012 as well. In particular, second-level controls are entrusted to several departments (Risk Management Department, Internal Validation, Compliance Department, Anti-Money Laundering Department) coordinated by the Chief Risk Officer. The Control Committee verifies that these control functions are assigned suitable resources, in terms of quantity and quality.

The Internal Auditing Department – which amongst other things has to guarantee constant and independent control over the regular performance of Bank operations and processes - was placed under the direct responsibility of the Chairmen of the Management and Supervisory Boards, safeguarding its independence from the operations departments. The appropriateness of the organisational structure of this Department – which is used primarily by the Supervisory Board, the Control Committee and the Surveillance Body – is regularly reviewed by the Control Committee.

It is noted that, in order to safeguard the independence of the control functions, the Supervisory Board is directly involved in appointing the respective managers.

The organisational chart of Intesa Sanpaolo S.p.A. as at today's date is shown below. It should be noted that on 18 December 2012, the Management Board, after receiving the Supervisory Board's favourable opinion, appointed Giuseppe Castagna as General Manager and Head of the Banca dei Territori Division of Intesa Sanpaolo.



3.2 Adequacy of the internal control system

As already noted above, the internal control system is made up of three levels of controls:

- line controls conducted by operational structures (by the person performing the relevant activity plus hierarchical controls), or incorporated into procedures or back-office activities;
- controls which are under the responsibility of the Chief Risk Officer; they include, in addition to the Legal Affairs Department (to whom it reports in functional terms) and the Credit Quality Monitoring Unit:
 - risk management controls run by the relative function, which are aimed at contributing to the definition of risk management methodologies, at verifying compliance with the limits assigned to the various operating functions and at controlling the consistency of the operations of individual productive areas with the assigned risk-return targets;
 - validation of internal models, whether already implemented or under development, carried out by a dedicated function tasked with assessing on an ongoing basis risk management and measurement systems in terms of models, processes and IT infrastructure, and their continuing compliance with regulatory requirements and appropriateness to operational needs and market developments;
 - compliance controls run by the relative function, which are aimed at preventing the risk of incurring legal and administrative penalties, significant financial loss or damage to reputation as a consequence of infringements of laws and regulations or voluntary codes;
 - anti-money laundering controls, entrusted to a dedicated function, established in accordance with the provisions issued by the Bank of Italy on 10 March 2011, to ensure the monitoring of compliance risk in respect of anti-money laundering, the fight against the financing of terrorism and embargo management;
- internal auditing activities managed by the Internal Auditing Department, an independent structure from the operational structures, whose aim is to identify anomalous operations and breaches of procedures and regulations, and to assess the overall functioning of the internal control system.

The control system is described in detail in the Annual Report, to which reference should be made, and

involves the participation of the Corporate bodies, the Manager responsible for the Company's financial reports, the specific internal control functions, and also of the Surveillance Body pursuant to Legislative Decree 231/2001, discussed in more detail below.

The Independent Auditors, within their area of responsibility, also form part of the internal control system. This system includes the important role of the Control Committee as a permanent reference point for all internal control structures and functions; this allows a close link with the Supervisory Board, the body which heads the overall control system. In this role, the Supervisory Board receives a continuous flow of information through the operations of the Committees and from the managers of the control functions.

Lastly, please note that in 2012, the Control Committee was asked by the Bank of Italy to issue opinions on and assessments of specific events.

3.2.1 Activities of the heads of the internal control functions

- The Risk Management Department, as part of its wider duties, submitted the following to the Control Committee:
 - the Risk *Tableau de Bord*, which provides the Committee with an overall view of the Group risk, on a quarterly basis;
 - a progress status report on the initiatives under way to ensure compliance with the regulations for the prudential supervision of banks issued by the Bank of Italy. With regard to these initiatives, the Committee obtained updates and requested further information on the main risks, also with regard to internal risk measurement systems for the determination of capital requirements, adopted upon authorisation from the Bank of Italy.

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Activities of
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In particular, the Department:

- with regard to credit risk, submitted updates concerning:
 - the adoption and deployment of internal rating systems for the SME Retail segment;
 - the progress of the corrective actions plan – required by the Bank of Italy upon authorisation of the reduction of the capital floor in order to contain capital requirements for credit risk – necessary to obtain a further reduction of the floor; in this context, the Committee also analysed the results of the checks carried out by Internal Validation and by the Internal Auditing Department;
 - consistency between the ratings assigned by the agencies and the independent evaluations carried out by Intesa Sanpaolo;
- with regard to market risk, the Department submitted to the Control Committee:
 - a notice regarding the Bank of Italy's authorisation for Intesa Sanpaolo and Banca IMI to use the internal model for specific risk on debt securities starting from reports as at 30 September 2012, with respect to which the Supervisory Authority recommended a number of corrective measures with a relative quarterly update;
 - a report on the operational use of the internal counterparty risk measurement model; this model was already adopted by Banca IMI for operational use, and a validation procedure was initiated in 2012 to use this method for regulatory purposes as well;
 - a report on the monitoring of market risk and, in particular, on trading risk and exceeding of the VaR limits;
- with regard to operational risk, it reported on:
 - the progress of corrective measures requested by the Bank of Italy upon issuance of the authorisations to use the AMA method for the Corporate and Investment Banking Division, Banca CR Firenze, Setefi and PBZ Croazia;
 - the stipulation of new insurance coverage aimed at transferring operational risk (Operational Risk Insurance Programme) and the Bank of Italy's request to use it to mitigate capital absorption;
 - the application to the Bank of Italy to extend the AMA Method to the main companies of the Fideuram Group and to two companies of the Slovak Group VUB, as well as to amend the algorithm for distribution of the capital requirement across the Group's companies;
 - the certifications of compliance with the eligibility criteria for the TSA method in 2013 by the Group entities that have adopted this method.

With regard to the three risks mentioned above, the Department also reported to the Supervisory Board on the related extension plans.

Furthermore, the Department provided the Control Committee, and through it the Supervisory Board, with an update on the project for mitigation of reputational and compliance risk for Italy and abroad.

The work of the Risk Management function also involved the internal capital adequacy assessment

process (ICAAP), in relation to which, also upon recommendation from the Control and Strategy Committees, it examined various aspects.

Finally, the Department submitted to the Corporate bodies the report required by art. 13 of the Consob-Bank of Italy Joint Regulation pursuant to art. 6, paragraph 2-bis, of the Consolidated Law on Finance, concerning the provision of investment services and activities.

- Internal Validation submitted as per its remit to the Control Committee and the Supervisory Board its annual reports on the outcomes of the checks carried out on the progress of the corrective actions plan required by the Bank of Italy, necessary in order to obtain a further reduction of the floor, as well as on the market risk and internal operational risk measurement models.
- The Compliance Department, in accordance with the functions assigned to it, provided the Control Committee with:
 - the institutional and periodic reports on the work carried out, including the report required by art. 16 of the Consob-Bank of Italy Joint Regulation pursuant to art. 6, paragraph 2-bis, of the Consolidated Law on Finance, the report on the assessment of the compliance risk that the Group is exposed to and the related controls, the report on the planning of the measures to be implemented and on the results of the assessments of the investment services provided to customers and the periodic report on transparency of transactions and banking services;
 - updates on the “Transparency Project” and on the relative action plan required by the Supervisory Authority to remove a number of critical issues identified, aimed at planning and implementing the necessary organisational and procedural measures to ensure compliance with transparency regulations issued by the Bank of Italy;
 - information on the progress of the activities to implement the MiFID and updates on the related internal regulations (adjustments of the Conflict of interest management policy, of the Regulations on the provision of advisory services, and of the Rules for classifying customers);
 - information on complaints received by Banca Fideuram and Intesa Sanpaolo Private Banking;
 - updates on Group schemes in place in terms of subsidised loans pursuant to Law 488/1992;
 - a report on guidelines of the European Securities and Markets Authority (ESMA) regarding capital adequacy requirements envisaged by the MiFID (effective from the end of 2012) and on the specific project launched in 2013 to identify the most appropriate measures to strengthen the model adopted by the Bank.
- The Anti-Money Laundering Department, in accordance with the functions assigned to it, provided the Control Committee, also in its capacity as Surveillance Body, with information on the following issues:
 - anti-money laundering safeguards and relative Tableau de Bord;
 - staff training;
 - reports pursuant to Art. 52 of Legislative Decree 231/2007;
 - quantitative risk assessment model for money laundering risk and terrorism financing risk;
 - action plan on the anti-money laundering practices of high-risk customers;
 - report drawn up following the Bank of Italy’s request regarding the organisational anti-money laundering safeguards implemented by members of the Group located in non-European countries.
- The Internal Auditing Department, responsible for level-three controls, is the primary structure used by the Supervisory Board to perform its supervisory duties and it generally attends the Control Committee meetings, in the person of its head of Department, keeping it continually updated on the work carried out and planned, in accordance with the annual audit plan approved by the Management Board and the Supervisory Board at the beginning of the year.

In performing its functions, the Department:

- draws up and shares with the Control Committee the annual Risk Assessment report, the audit plan and the key performance indicators identified by the Department itself to monitor the effectiveness of the audit function;
- reports to the Control Committee, on a quarterly basis, on the work performed, also using a *Tableau de Bord* which highlights the main issues identified and the actions taken to correct them;
- reports regularly to the Control Committee on the actions taken by the Supervisory Authorities in

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- relation to the foreign branches, subsidiaries and companies, also submitting its own reports;
- prepares the report on the assessments of the foreign branches;
 - draws up the annual report on the assessments of the mechanisms used to ensure that the remuneration policies comply with the laws and regulations. The outcome of these assessments is set forth in the second part of this Report, to which reference is made;
 - submits the annual report on internal audit activities required by art. 14 of the Consob-Bank of Italy Joint Regulation pursuant to Art. 6, paragraph 2-bis, of the Consolidated Law on Finance;
 - conducts the analysis and self-assessment of the ICAAP process;
 - prepares the annual reports on the internal models that measure credit risk, market risk and operational risk;
 - presents the report on governance of the Group's SGRs and on the potential conflicts of interest;
 - at least once a year, it submits its own considerations and assessments of the overall internal control system.

Furthermore, in accordance with its duties, after analysis and discussion with the Control Committee, the Internal Auditing Department prepared various other reports concerning, *inter alia*:

- the consumer credit sector, with particular reference to Neos Finance, with respect to which it reported on the controls carried out on the network of agents – currently under reorganisation – highlighting a number of areas for improvement;
- the organisation of controls in branches abroad, providing information on the type and frequency of audits carried out in the Hub branches and in the smaller branches;
- the outcome of assessments required by the Bank of Italy in acquiring control of Banca Monte Parma, which confirm that the most significant areas of weakness identified by the Supervisory Authority have been remedied;
- the outcome of assessments carried out following the transmission to the Bank of Italy of a report pursuant to art. 52 of the Consolidated Law on Banking by subsidiary Cassa di Risparmio del Friuli Venezia Giulia for an anomalous asset identified in a pawnshop; these assessments revealed a number of shortcomings in the regulatory, organisational and procedural areas in the Group's pawnshop structures and which are being remedied;
- the report required by the Supervisory Authority on subsidiary Fideuram Asset Management Ireland, as a result of tax assessments conducted at Fideuram Investimenti, which confirmed, in line with what was also highlighted by the Administration and Tax Department, the soundness of the subsidiary's operations;
- disposal by Fondo Omega of a building contributed by the Bank to said Fund, confirming the Bank's non-involvement in the matter;
- an analysis of the procedures to monitor compliance with the prudential regulations by some Group companies, in response to requests by the Bank of Italy for clarification; to this end, the Internal Auditing Department has requested additional resources;
- details on the Hungarian subsidiary CIB, with particular reference to the questions raised by the local Supervisory Authority as part of the SREP of the ICAAP and to the analysis of the Company's loans portfolio.

The Control Committee, also acting in its capacity as Surveillance Body, continued monitoring of the activities carried out as part of the Parmalat transaction. To this end, the Committee requested and received details on the effective functioning of the "advance conflict check" mechanism introduced as part of the analysis of extraordinary finance transactions.

The Committee also received an information note on the new Regulations for Prudential Supervision for banks, to be issued by the Bank of Italy shortly.

The Committee was also informed on the preparation and monitoring over time of the performance indicators that the Bank of Italy has placed under observation, as part of its supervisory activities.

An assessment of the Group's internal control system was launched in December 2012, with the support of an external advisor, with the aim of assessing its solidity and efficacy and identifying the development guidelines to render it more consistent with the changing market contexts and the business model adopted.

In accordance with the Organisational, Management and Control Model adopted by the Bank pursuant to Legislative Decree 231/2001, the Committee analysed the activities carried out by the Surveillance Bodies

of Italian Companies of the Group.

Finally, the Code of Ethics assigns the Control Committee, also in its capacity as Surveillance Body pursuant to Legislative Decree 231/2001, the task of supervising the observance of the principles and values of the Code, with the aid of the delegated structures (Internal Auditing and the Corporate Social Responsibility Unit). In this regard, the Body has examined the annual report produced by the Corporate Social Responsibility Unit on its implementation and has no particular observations to report.

3.2.2 The Surveillance Body pursuant to Legislative Decree 231/2001

As it is known, the Control Committee is also the Bank's Surveillance Body, pursuant to Legislative Decree 231 of 8 June 2001, on matters relating to corporate administrative liability, and it is responsible for supervising the functioning, effectiveness and observance of the "Organisational, Management and Control Model" adopted by the Bank in accordance with the aforementioned Legislative Decree 231/2001 (the "Model").

This Model, with reference to the composition of the Surveillance Body, requires the presence of additional members, who have been confirmed by the Supervisory Body on the renewal of the Surveillance Body, resolved by the Board on 7 May 2010.

Committee activities as the Surveillance Body are governed by the Regulations for the Control Committee and Surveillance Body. The Body meets regularly to monitor (through the Compliance Department) the efficiency, effectiveness and adequacy of the Model and (through the Internal Auditing Department) the compliance with its provisions, reporting regularly to the Management Board and the Supervisory Board.

In 2012, the Body met 28 times, analysing numerous issues relating to the observance and implementation of the Model, which was updated on 6 March 2012 in light of the changes introduced in the relevant legislation.

In particular, the Surveillance Body received information on:

- the regular reports from the Anti-Money Laundering Department and the relative Intervention Plan, the reports pursuant to Art. 52 of Legislative Decree 231/2007 and the reports on potential infringements of the legislation;
- also in terms of anti-money laundering, the points of attention identified during Bank of Italy inspections of the Banca dei Territori Division, as well as the Supervisory requirements if the safeguards are outsourced and on safeguards in non-European countries;
- staff training on the administrative liability of entities;
- regulatory profiles as regards workplace safety and environmental crimes;
- applicability of Legislative Decree 231/2001 to the branches and international subsidiaries, as well as the relative liability profiles of the Parent Company for crimes committed by the employees of subsidiaries;
- the extension of liability if the Surveillance Body function is assigned to the Board of Auditors;
- activities carried out by the Internal Auditing and Compliance Departments and the relative intervention plans;
- the updated risk assessment document;
- the processing of personal data and information received by the Surveillance Body following reports, in relation to the Privacy Law;
- profiles regarding legislation on workplace safety relating to construction of the Headquarters in Torino;
- outcome of the assessment of the Model, conducted with the support of an independent advisory firm which confirmed its compliance with the laws in force.

3.2.3 Other activities of the Supervisory Board

In addition to all of the above, the Supervisory Board performed the following activities:

- acting through the Control Committee and the Financial Statements Committee, it monitored the loan portfolio of Intesa Sanpaolo and its subsidiary banks, with particular emphasis on its changes and level of concentration. In this area, the processes for management and evaluation of non-performing loans underwent detailed assessment, with particular reference to doubtful loans. Furthermore, through the Control Committee and upon specific request by the Supervisory Authority, it examined the adequacy of provisions on a sample of doubtful loan positions. These positions were identified by the Bank of Italy as part of an activity carried out with regard to the major Italian banks. The outcome of these assessments, conducted by the Chief Risk Officer and by the Internal Auditing Department, confirmed the appropriateness of the provisions already allocated;
- it verified the internal procedures and controls relative to the calculation and communication of rates used to determine the Euribor, as well as the incentive systems for staff involved in this process, to

satisfy a specific request from the Bank of Italy;

- it examined the implications of Italy's downgrading on the concentration limits of securities in customers' portfolios;
- it approved, upon recommendation by the Management Board, the reports to the Bank of Italy regarding subsidiaries CIB Bank (Hungary) and Alexbank (Egypt), as well as the complaints situation at Banca Sara (Fideuram Group);
- it supervised the Intesa Sanpaolo Group ongoing compliance with the requirements for adoption of internal systems to determine regulatory capital requirements for credit risk, market risk and operational risk.

Particular attention was paid to the Bank of Italy's inspections of the Parent Company and subsidiaries, which in 2012 involved Banco di Napoli, Mediocredito Italiano and the branches abroad. With regard to the outcome of the above inspections, corrective actions were launched based on the remarks and requests made by the Supervisory Authority as regards Banco di Napoli and Mediocredito Italiano; these actions are in the planning stages for the branches abroad. The same Authority launched inspections for recognition of the internal risk management systems for prudential purposes.

Furthermore, attention is drawn on the fact that in 2011 the Supervisory Board, via the Control Committee, had received a 'relevant event alert' concerning abnormal transactions by one customer, involving two banks belonging to the Group. Upon request by the Board of Auditors of one of the banks involved, the Parent Company had sent the Bank of Italy a report pursuant to Art. 52 of the Consolidated Law on Banking on behalf of said Board, which in August 2012 was supplemented with additional assessments carried out by the Internal Auditing Department. In the meantime, the Committee implemented the remedies for the weaknesses identified.

Lastly, it is worth recalling that the Supervisory Board, in performing its strategic supervisory role, is the Body responsible, upon recommendation by the Management Board, for:

- approving the adoption of internal risk measurement systems for the calculation of capital requirements. In this regard, the Board, through the Control Committee, analysed and verified the process for the use and/or rollout of the internal risk management systems for the calculation of the capital requirements and, with reference to:
 - market risk, approved implementation within Intesa Sanpaolo's corporate processes of the internal model for measurement of exposure to counterparty risk;
 - credit risk, submitted the application to extend the AIRB method to Banca IMI's Corporate portfolio and to adopt Specialised Rating Models at the Group level;
 - credit, market and operational risks, the Board approved the related extension plans to be submitted to the Bank of Italy;
- approving the report on the internal capital adequacy assessment process (ICAAP), with respect to which the Supervisory Board conducted a specific analysis of the capital adequacy of Intesa Sanpaolo.

The Supervisory Board also approved, on the recommendation of the Management Board:

- the update of the Rules for measurement and control of interest rate risk for the Group's Banking Book;
- the update of the Rules governing the pricing of bonds placed by Banks and Companies of the Banca dei Territori Division;
- the update of the Rules for implementation of the MiFID in terms of customer classification and out-of-branch offering.

Specific and detailed information was provided on the stipulation, with the Trade Unions, of the "Productivity and employment protocol", which defines the solutions and measures, also of an operational nature, that became necessary upon deterioration of the economic scenario and the regulatory changes introduced at the national level in terms of employment and pensions. This agreement aims to improve company productivity and efficiency by supporting employment, in accordance with the national agreements on productivity.

In 2012, as in the past, the information flows from the various Bank departments to the Control Committee – and therefore indirectly to the Supervisory Board – were ongoing. In addition to the regular reporting by the internal control functions (Risk Management Department, Internal Validation, Compliance Department, Anti-money Laundering Service and Internal Auditing Department) – important information was also provided by the Manager responsible for preparing the Company's financial reports on the work carried out, the problems identified and the actions taken to address them, as well as the assessments of the internal control system for accounting and financial reporting.

3.3 Assessment of the adequacy of the control system

On conclusion of the work carried out in 2012, as reported to the Management Board and the Supervisory Board also via the Control Committee, the Internal Auditing Department confirmed an opinion as to the overall adequacy of risk governance, also in view of the initiatives implemented by Management to address the main issues reported.

With regard to the above, as well as to the results of the supervisory activities conducted and the information that emerged during meetings with the Independent Auditors, the Control Committee shared the assessment of the Internal Auditing Department, also highlighting areas warranting analysis.

With regard to the outcome of the audit on the Parent Company's and consolidated financial statements as at 31 December 2012, KPMG S.p.A. identified no significant shortcomings in the internal control system relating to the financial reporting process.

In view of the above, the Supervisory Board agrees with the considerations of the Control Committee and highlights its commitment to monitor the areas identified by the Committee, as well as, through the latter, the issues presented in the Internal Auditing Department's *Tableau de Bord*.

4. Supervision of the adequacy of the accounting information system and its reliability in correctly representing the operational events

4.1 Adequacy of the accounting information system

The Parent Company's and consolidated financial statements as at 31 December 2012 were prepared pursuant to Legislative Decree 38/2005, the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as provided for by European Regulation 1606/2002. The financial statements were prepared based on the "Instructions for the preparation of the separate and consolidated financial statements" pursuant to Bank of Italy Circular 262 of 22 December 2005, most recently amended in November 2009, which set out compulsory financial statement forms (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, and statement of cash flows) and their means of preparation, the contents of the Notes to the financial statements and the Report on operations, for the Parent Company and consolidated.

The Supervisory Board, assisted by the Financial Statements Committee and the Control Committee, supervised the adequacy of the administration and accounting systems, questioning the Manager responsible for preparing the Company's financial reports on the main action lines and solutions adopted, also in order to correctly fulfil its duty in relation to the approval of the financial statements.

The Financial Statements Committee held various meetings, including several joint meetings with the Control Committee and with the attendance of the Manager responsible for preparing the Company's financial reports and the Independent Auditing Firm, to examine the issues relating to preparation of the Parent Company and consolidated financial statements as at 31 December 2012 and to analyse the logic and processes involved in the preparation of the financial reports of the Bank and the Group (including quarterly and half-yearly reports). The Financial Statements Committee investigated in depth, *inter alia*, the following topics: changes in the accounting and supervisory regulations; structure and content of the 2012 financial statements; financial statements of the insurance companies; the assessment of equity investments; legal and tax disputes; loans; taxation; impairment testing of intangible assets; capital ratios. With regard to the impairment tests, the Financial Statements Committee and the Control Committee were provided with a detailed report on the procedure, which complies with the provisions of the IAS 36 accounting standard and has been specifically approved by the Management Board. Specific attention was also paid to the regulatory capital and capital ratios.

The Control Committee, assisted by the Manager responsible for preparing the financial reports and taking note of the comments of the Independent Auditing Firm, assessed the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements, the consolidated financial statements and any other financial report.

The disclosure to the public under the provisions of the Pillar 3 prudential supervisory regulations is provided on the Bank's internet site within the term required for publication of the financial statements. To this end, the Supervisory Board approved the update of the relative guidelines in 2012.

The Board was also updated on the "Macchina dei Numeri" project, implemented in the Chief Financial Officer's Area through a specific organisational structure within the Planning and Control Department, aimed at creating a Group datawarehouse to support the information requirements of the Divisions and of the Governance Structures, improving data quality and eliminating current redundancies.

The Manager responsible for preparing the Company's financial reports, with the aid of the Administrative and Financial Governance function – the structure responsible for performing the controls needed for the accounting and financial reporting – provided regular information on the implementation of the Guidelines for Administrative and Financial Governance. The work done enabled the Managing Director and CEO and the Manager responsible for preparing the financial reports to issue the certifications required by Art. 154-*bis* of Legislative decree 58/98 with reference to the annual separate and consolidated financial statements for 2011.

4.2 Meetings with the Independent Auditors

The Supervisory Board, through the Control Committee (also in light of the provisions of Legislative Decree 39/2010) and the Financial Statements Committee, together with the Manager responsible for preparing the Company's financial reports, met with Reconta Ernst & Young S.p.A. - the previous independent auditors, and with KPMG S.p.A. as current auditor ("External Auditors" or "Independent Auditors") 8 times in 2012, in accordance with Art. 150, paragraphs 3 and 5 of the Consolidated Law on Finance.

The meetings offered the opportunity, among other things, of examining the auditing plan and the work carried out by the independent auditors in the formulation of their opinion on the Parent Company's and the consolidated financial statements. In this regard, the External Auditors illustrated the report prepared pursuant to Art. 19 of Legislative Decree 39/2010 and certain aspects of the internal control system in relation to the financial reporting process ("Management Letter"). Through its Committees, the Supervisory Board monitored the implementation of the improvement measures planned by the management to address aspects of the internal control system. Furthermore, the Financial Statements Committee and the Control Committee oversaw the process of transition to the new independent auditors KPMG S.p.A.

The above-mentioned Committees also held 5 meetings with the Independent Auditors and the Manager responsible for preparing the Company's financial reports, in the early months of 2013, in preparation for the approval of the Parent Company's and consolidated financial statements as at 31 December 2012.

4.3 Reports of the Independent Auditors

On 20 March 2013, the Independent Auditors issued their Reports, pursuant to Articles 14 and 16 of Legislative Decree 39/2010, on both the Parent Company's and consolidated financial statements as at 31 December 2012, with no exceptions. Specifically, the Reports confirm:

- (i) that the two documents as at 31 December 2012:
 - comply with International Financial Reporting Standards adopted by the European Union and with provisions issued in enactment of Art. 9 of Legislative Decree 38/2005;
 - have been drafted clearly and provide a true and fair presentation of the balance sheet and financial position, the income statement, and the cash flows;
- (ii) the consistency of the Reports on operations and the information referred to in par. 1) letters c), d), f), l), and m) and par. 2, letter b) of Art. 123-bis of Legislative Decree 58/1998, presented in the "Corporate Governance Report and Information on Ownership Structures".

4.4 Reliability of the accounting information system in correctly representing the operational events

Based on the evidence analysed and the information provided by the Manager responsible for preparing the Company's financial reports to the Supervisory Board, concerning the efficiency and adequacy of the internal control system for financial reporting, the Bank's and the Group's administrative and accounting system can be deemed capable of ensuring a fair representation of the operational events.

5. Supervision of the independence of the Independent Auditors

In order to supervise the independence of the Independent Auditors and verify compliance with the regulatory provisions, and monitor the nature and extent of the services other than accounts auditing provided to the Bank and its subsidiaries by the same Independent Auditors and by the entities belonging to their network, the Bank has adopted a Group Regulation for the granting of assignments to independent auditors and for the provision of audit and other services. This regulation, in addition to the role of "Main Auditor", which coincides with the External Auditor of the accounts of a quoted Parent Company (Public Interest Entity pursuant to the Legislative Decree 39/2010), also identifies the "Secondary Auditor", namely the Independent Auditors engaged to perform the audit of certain significant Italian and foreign subsidiaries, and the Independent Auditors' network and the entities connected to them. This Regulation lays down the rules to be observed in order to ensure proper management also with regard to safeguarding the independence of the External Auditors and provides for regular reporting to the Bodies on the assignments granted.

The Independent Auditors are required to monitor the continuance of the auditor's conditions of independence, for which they have issued the aforementioned written confirmation.

The independent auditors appointed by the Parent Company and the other Group Companies are KPMG S.p.A., assigned to audit the annual and consolidated accounts for the year ended 31 December 2012, to verify, during the year, the regular keeping of corporate accounts and the proper recording of management operations in the books, and to express, through the appropriate reports, an opinion on the Parent Company's and consolidated financial statements, as well as on the half-yearly report, after ascertaining that they correspond to the accounting entries and related audits and that such records comply with the relevant regulations. The audit activities include verification of the balance sheets and income statements of branches abroad with regard to their inclusion in the Bank's financial statements, limited audit of the Half-yearly Report including limited audit of half-yearly positions of branches abroad for inclusion in the Bank's Half-yearly Report, examination of information provided for the preparation of consolidated annual and half-yearly reports, audit of the financial statements of the vehicle company and the statements of consolidated funds, review in relation to the signing of tax returns and declarations submitted to the National Guarantee Fund.

Following assignment of the auditing task for the period 2012-2020 to KPMG S.p.A., the company replaced Reconta Ernst & Young S.p.A. in the role of Auditor of Intesa Sanpaolo. With regard to the assignments conferred during 2012, the amounts paid in 2012 are indicated under "audit" in the statement on "Fees for auditing and services other than auditing pursuant to art. 149-duodecies of Consob Regulation 11971" provided as an attachment to the Annual Report 2012.

KPMG S.p.A. and other entities "related by ongoing relations" were also appointed, in compliance with the requirements of the abovementioned Group Regulation, to perform tasks in addition to those indicated above, the fees for which, excluding reimbursed expenses and VAT, are detailed below.

Fees for services other than auditing

Type of services	(millions of euro)			
	Intesa Sanpaolo		Group Companies (*)	
	KPMG	KPMG Network	KPMG	KPMG Network
Release of attestations (**)	0,69	-	0,31	-
Tax consulting services	-	-	-	0,07
Other services:	-	-	-	-
<i>agreed audit service</i>	-	-	0,05	-
<i>social report</i>	0,05	-	-	-
<i>other</i>	-	-	-	-
Total	0,74	-	0,36	0,07

(*) Group companies and other consolidated subsidiaries.

(**) Including the audit costs, on a voluntary basis, for the "Pillar 3" disclosure.

Amounts net of VAT and reimbursed expenses

Under the Group Regulation these tasks can be classified in part as audit related, in other words as tasks that involve activities that are an extension of the audit assignment or activities assigned under the law or by an Authority and therefore do not entail a particular "threat" to the external auditor's independence. During the year, these fees referred mainly to audits carried out in order to issue Comfort Letters on international issue programmes (0.55 million) and, for the residual amount, to assessments related to certain "Pillar 3" disclosures, to verifications required by the supervisory authority on international subsidiaries of the Group and to the professional opinion on the Social Report.

Even the non-audit assignments were limited during the year (total fees of 0.8 million), maintaining the policy – with respect to the independence profiles of the auditor – of avoiding assignment by the Parent Company to its auditor and, similarly, by Group Companies, to their auditor or to the Parent Company's auditor (main auditor).

6. Supervision of the methods for the implementation of the corporate governance rules laid down in the Corporate Governance Code for listed companies promoted by Borsa Italiana

The "Annual Report" – already referred to several times above and monitored by the Control Committee – provides a detailed description of the current dual corporate governance system of Intesa Sanpaolo S.p.A. and comprehensive information on the procedures used by the Bank to adapt and implement the recommendations of the Corporate Governance Code published by Borsa Italiana S.p.A.

7. Supervision of the adequacy of the instructions issued by the company to its subsidiaries pursuant to Art. 114, par. 2 of the Consolidated Law on Finance to comply with the legal requirements

Existing Group regulations and procedures are deemed fit for Intesa Sanpaolo to promptly meet disclosure obligations in accordance with current regulations.

In general, the information flows between the Parent Company and its subsidiaries continue to guarantee an effective exchange of information between Intesa Sanpaolo's Corporate Bodies and the respective bodies of the subsidiaries – also through the relevant functions - with regard to corporate governance systems and the overall performance. In 2012, the Control Committee informed the Supervisory Board on the internal Group regulations and, in particular, on the provisions passed on to the subsidiaries with respect to public disclosure of price sensitive information, pursuant to Art. 114 paragraph 2 of the Consolidated Law on Finance.

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Disclosures

8. Conclusions summary

With regard to conclusions drawn on supervisory activities performed by the Supervisory Board as described above, reference should be made to the content of the individual headings.

It is also confirmed that no omissions, reprehensible facts or irregularities emerged worthy of report to the Shareholders.

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Conclusions

PART II

OTHER INFORMATION

1. Results of auditing carried out by the Internal Auditing Department on the Intesa Sanpaolo Group's remuneration systems and practices in 2012

The Supervisory Board reports below on the results of auditing carried out by Intesa Sanpaolo's Internal Auditing Department on the Group's remuneration systems and practices in 2012.

The internal auditing department launched the relative audit, aimed at analysing the operational practices followed in defining the incentive system for the year 2012 and their consistency with the policies resolved by the Bodies and with the provisions issued by the Bank of Italy.

The audit plan was broken down into two separate stages, aimed at examining:

- the quantification and approval of the 2012 incentive system and its main components (economic requirements, certification of results achieved, allocation of the bonus pool to the departments, incentives for Key personnel and heads of the control functions);
- actual disbursement of the system, in order to ensure alignment with what was defined and approved by the relevant corporate bodies.

In 2012, the Boards approved, for the relative aspects under their responsibility, the guidelines of the incentive system and remuneration policies, with the relative application profiles. The policies and application profiles were assessed by the Compliance Department in order to ensure compliance with the regulations.

The application profiles determined the financing mechanism for the bonus pool of the Group and of Banca IMI (separate from each other) and the access thresholds (income before tax from continuing operations, Core Tier 1 > regulatory threshold), which activate the system when exceeded.

Certification of the levels of quantitative and qualitative performance for the Managing Director and CEO, General Managers and heads of the control functions was subjected to evaluation by the Boards on 12 March 2013.

The minimum threshold envisaged by the rules for activation of the Group and Banca IMI bonus pool were achieved; consequently, these were financed according to the pre-established application profiles.

In light of the final results at the Group and Business Unit level, the bonus pool was allocated solely to the departments that exceeded the activation threshold. A part of the bonus pool has already been paid for the commercial incentive system for personnel of the International Subsidiary Banks Division, as in prior years.

The residual "discretionary" portion of the bonus pool has not yet been distributed. This portion was designed to compensate, in accordance with the defined application profiles, for any misalignments between over-performance situations and the relative department (equality) and/or to manage any individual situations with a view to retention.

Given the timings and methods adopted in defining the application profiles for the 2012 system, the

following steps have been recommended for 2013:

- define and formalise the rules within the internal regulations sufficiently in advance, in order to increase employee awareness on the system's principles, on the measurement metrics, on the activation thresholds and on the individual and departmental objectives;
- better describe the metrics to measure the specific departmental objectives of some heads of the control functions.

Based on the observations thus far and on the recommendations made, the Internal Auditing Department expresses an opinion of adequacy of the operational procedure followed, in accordance with the policies and application profiles defined.

The internal auditing department will complete its process with assessments on the accuracy of the disbursement procedure, including the deferred portion.

2. Allowance for charitable contributions and cultural initiatives

The Intesa Sanpaolo Articles of Association assign the Supervisory Board and its Chairman duties with regard to the use of the "Allowance for charitable, social and cultural contributions". A brief summary is provided below on the work carried out in 2012, in compliance with the specific Regulation on the matter, with more detailed information provided in the Social Report 2012.

It should firstly be noted that the local donation system was confirmed and local donations were increased, managed independently by the Banca dei Territori Division to support local projects of significant social and cultural value in the geographical areas of operation of the Bank and the other credit entities not equipped with an independent charity fund, or having funds with inadequate resources.

In order to plan the disbursement of donations, the Board used a specific annual plan, as usual. This instrument proved to be valid not only in managing applications, acting as both an additional "filter" in relation to the Regulation and a tool to achieve the pre-established results through donations.

Overall, in 2012 the Fund granted 6,882,272 euro for 672 donation projects. Some 74% of the amounts (corresponding to 95% of the number of applications accepted) were designated to support initiatives in Italy, confirming the significant impact of the local donations. National and international disbursements for social projects represented 53% of the total amount (38% in terms of number of projects). Those of a "religious/charitable" nature were 30% in terms of amount (45% by number) and the "cultural" disbursements stood at 17% in terms of amounts disbursed (18% by number). At the national level, the total amount granted was 5,114,598 euro, broken down as follows: 39% for social projects, 37% for religious/charity projects, and 24% for cultural initiatives. As to international donations, 92% of the total went to social projects, while the remaining 8% was granted to religious initiatives.

Intesa Sanpaolo showed a significant commitment to culture in 2012 as well, continuing the tradition of cultural, publishing and music initiatives promoted by the banks that have joined the Group.

In particular, the Culture Project – which is the strategic reference framework for the multi-year planning of the Bank's cultural initiatives – was further reinforced through the "Gallerie d'Italia" museum network, with opening to the public of Palazzo Beltrami and "Cantiere del '900", which, upon completion of the section dedicated to Italian 19th-century area, enabled the Piazza Scala Galleries to adopt a definitive layout. Efforts to allow public enjoyment of the Bank's art collection also continued, with the publication of annotated catalogues referring to the 20th-century collections. The XVI edition of "Restituzioni" – the biennial restoration programme for public works of art promoted and implemented by Intesa Sanpaolo in collaboration with the Italian architectural, archaeological and historical-artistic offices – involved the restoration of 43 groups of art, for a total of over 250 individual items created between the VIII and early XIX centuries and originating in various Italian regions.

The Historical Archive was also moved to a new position providing greater accessibility and visibility to the collections.

Lastly, the publishing and musical initiatives supported by Intesa Sanpaolo during 2012 were again aimed at preservation, disclosure and public use. With specific regard to the Bank's publications, mention goes to the publishing and musical project Vox Imago, dedicated to opera, which acquired a new edition, like the Milan Museum and Gallery chains and that of the guides on the Group's historic headquarters. With regard to music, the contributions for the organisation of concert series were accompanied by initiatives in collaboration with high-profile entities, to plan training programmes for underprivileged youth and to hold sessions on music culture open to the public.

3. Results for 2012 and allocation of profit

The Supervisory Board has approved the Parent Company's and consolidated financial statements as at 31 December 2012.

The consolidated financial statements show a net income of 1,605 million euro. The Management Board has highlighted this result as evidence, within a difficult market context, of the significance and soundness of the strategy focused on constant strengthening of the balance sheet – with a solid capital base that is significantly greater than the regulatory requirements and with high liquidity – sustainable income and attention to performance.

In light of the above, the Management Board has resolved to propose that the Shareholders' Meeting distribute a total of 831,957,531.97 euro in cash dividends, which would provide 5 euro cents to each of the 15,501,512,155 ordinary shares and 6.1 euro cents to each of the 932,490,561 savings shares, without prejudice to the allocation to extraordinary reserves of the non-distributed amount for any treasury shares held as at the dividend detachment date.

The Supervisory Board has no objections to the proposals made by the Management Board in terms of the distribution of dividends.

Torino, 21 March 2013

For the Supervisory Board
the Chairman – Giovanni Bazoli